

# Asia Flash

## Asia

### **China announces 2014 policies to focus on reforms and growth stability**

The government's annual Central Economic Work Conference (CEWC) concluded late last Friday. The meeting lasted four full days, some two days longer than usual, in a sign of the increasing importance the authorities are attaching to economic reforms. The last two days were devoted to a special sub-session on urbanization. The outcome of the meeting contained few surprises, and was in line with recent policy announcements, including from November's Third Plenum meeting, to rebalance the economy and sustain medium-term growth. Specifically, the government emphasized a continued policy stance for 2014 based on "proactive fiscal and prudent monetary" aimed to sustain growth "within reasonable zone", widely believed to be in the 7.0%-7.5% range. While an official announcement of the government's 2014 growth target is expected in March, domestic news media reported that the target will remain unchanged at 7.5%. Six main tasks for 2014 were highlighted as follows: (i) ensuring national food security and safety; (ii) tackling structural issues, including over-capacity, local government debt, regional development, social well-being, economic openness, and greater outward investment.

### **China December Flash PMI disappoints at 50.5**

Manufacturing activity appears to have softened in December, as today's flash HSBC manufacturing PMI declined to 50.5 (consensus: 50.9; prior: 50.8). That said, the outturn signals continued expansion, while stronger sub-components for new orders and export orders point to improving external demand. We await the final HSBC PMI outturn and the official NBS PMI on January 1 (last month's official PMI was flat at 51.4). We expect full-year growth of 7.7% in 2013 and 7.6% in 2014.

### **Tankan Survey in Japan shows mixed reading on business confidence**

The quarterly Tankan Survey, conducted by the Bank of Japan (covering more than 10,000 businesses), was released today. On the positive side, business confidence in the current quarter reached highs not seen since December 2007, rising to 16 (consensus: 15). The outturn is encouraging after a disappointing downward Q3 GDP revision (1.1% saar), and could suggest higher investment spending in Q4. However, the Tankan's forward looking confidence index fell well short of expectations at 14 (consensus: 17), and businesses reported that their planned increase in investment for 2014Q1 has moderated to 4.6% from 5.1% previously. While Abenomics has given a boost to GDP growth, investors are still awaiting clearer progress on the structural reform front. Looking ahead, we expect GDP growth to moderate to 1.5% in 2014, while our current 1.9% growth projection for 2013 is also subject to downside risks.

### **Uptick in India inflation increases the likelihood of another rate hike**

Rising inflation in November has increased the likelihood of a third successive interest rate hike by the Reserve Bank of India at its upcoming December 18 policy meeting (the repo rate currently stands at 7.75%). November WPI inflation, released today, picked up to 7.5% y/y (consensus and prior: 7.0%), the highest since September 2012. The outturn was in line with a jump in November CPI released last Friday (11.2% y/y vs 10.2% in October), led mainly by higher primary food and fuel prices. Core WPI inflation stood unchanged at 2.6% y/y.

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With contributions from the BBVA Research Asia Team

## Calendar Indicators

| China                           | Date      | Period | Prior | Cons.  | Actual |
|---------------------------------|-----------|--------|-------|--------|--------|
| Foreign Direct Investment YoY   | 16-18 Dec | Nov    | 1.20% | 1.10%  | --     |
| HSBC/Markit Flash Mfg PMI       | 16 Dec    | Dec    | 50.8  | 50.9   | 50.5   |
| China November Property Prices  | 18 Dec    | --     | --    | --     | --     |
| Hong Kong                       | Date      | Period | Prior | Cons.  | Actual |
| Unemployment Rate SA            | 17 Dec    | Nov    | 3.30% | 3.30%  | --     |
| India                           | Date      | Period | Prior | Cons.  | Actual |
| Wholesale Prices YoY            | 16 Dec    | Nov    | 7.00% | 7.00%  | 7.52%  |
| Japan                           | Date      | Period | Prior | Cons.  | Actual |
| Machine Tool Orders YoY         | 17 Dec    | Nov F  | 15.4% | --     | --     |
| Exports YoY                     | 18 Dec    | Nov    | 18.6% | 18.0%  | --     |
| All Industry Activity Index MoM | 19 Dec    | Oct    | 0.40% | -0.30% | --     |
| Malaysia                        | Date      | Period | Prior | Cons.  | Actual |
| CPI YoY                         | 18 Dec    | Nov    | 2.80% | 2.90%  | --     |
| Philippines                     | Date      | Period | Prior | Cons.  | Actual |
| Overseas Remittances YoY        | 16 Dec    | Oct    | 5.30% | 5.30%  | 7.00%  |
| Singapore                       | Date      | Period | Prior | Cons.  | Actual |
| Non-oil Domestic Exports YoY    | 17 Dec    | Nov    | 2.80% | 4.30%  | --     |
| Taiwan                          | Date      | Period | Prior | Cons.  | Actual |
| Export Orders YoY               | 20 Dec    | Nov    | 3.20% | -1.20% | --     |

## Calendar Events

|  |                |              |            |
|--|----------------|--------------|------------|
| <b>India – RBI Repurchase Rate, Dec 18</b>       | <b>Current</b> | <b>Cons.</b> | <b>New</b> |
| We expect the benchmark rate to remain unchanged | 7.75%          | 8.00%        | --         |
| <b>India – RBI Cash Reserve Ratio, Dec 18</b>    | <b>Current</b> | <b>Cons.</b> | <b>New</b> |
| We expect the benchmark rate to remain unchanged | 4.00%          | 4.00%        | --         |

## Markets Data

| STOCK MARKETS | INDEX                      | Last price | % change<br>over a day | % change<br>over a week | Year to<br>date | % change<br>over 1 Y |
|---------------|----------------------------|------------|------------------------|-------------------------|-----------------|----------------------|
|               | China – Shanghai Comp.     | 2160.9     | -1.6                   | -3.5                    | -4.8            | 0.5                  |
|               | Hong Kong – Hang Seng      | 23114.7    | -0.6                   | -2.9                    | 2.0             | 2.3                  |
|               | Taiwan – TAIEX             | 8313.9     | -0.8                   | -1.5                    | 8.0             | 8.0                  |
|               | Japan – Nikkei 225         | 15152.9    | -1.6                   | -3.2                    | 45.8            | 55.6                 |
|               | Korea – Kospi              | 1961.2     | -0.1                   | -2.0                    | -1.8            | -1.7                 |
|               | India – Sensex 30 *        | 20659.5    | -0.3                   | -3.1                    | 6.3             | 6.9                  |
|               | Australia – SPX/ASX 200    | 5089.6     | -0.2                   | -1.1                    | 9.5             | 11.1                 |
|               | Singapore – Strait Times   | 3053.8     | -0.4                   | -1.9                    | -3.6            | -3.6                 |
|               | Indonesia – Jakarta Comp   | 4126.0     | -1.2                   | -2.1                    | -4.4            | -4.2                 |
|               | Thailand – SET             | 1328.4     | -0.9                   | -2.4                    | -4.6            | -2.2                 |
|               | Malaysia – KLCI            | 1837.9     | -0.1                   | -0.2                    | 8.8             | 11.3                 |
|               | Philippines – Manila Comp. | 5812.5     | 0.8                    | -3.3                    | 0.0             | 1.8                  |

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| FOREIGN EXCHANGE MARKETS | CURRENCY              | Spot   | % change<br>over a day | % change<br>over a week | Forward<br>3-month | Forward<br>12-month |
|--------------------------|-----------------------|--------|------------------------|-------------------------|--------------------|---------------------|
|                          | China (CNY/USD)       | 6.07   | -0.01                  | 0.01                    | 6.11               | 6.13                |
|                          | Hong Kong (HKD/USD)   | 7.75   | 0.00                   | -0.01                   | 7.75               | 7.75                |
|                          | Taiwan (TWD/USD)      | 29.7   | -0.12                  | -0.21                   | 29.50              | 29.25               |
|                          | Japan (JPY/USD)       | 103.02 | 0.18                   | 0.24                    | 102.96             | 102.71              |
|                          | Korea (KRW/USD)       | 1052   | 0.10                   | 0.13                    | 1059               | 1070                |
|                          | India (INR/USD)       | 61.9   | 0.31                   | -1.29                   | 63.17              | 67.16               |
|                          | Australia (USD/AUD)   | 0.89   | -0.35                  | -1.96                   | 1.13               | 1.15                |
|                          | Singapore (SGD/USD)   | 1.26   | -0.10                  | -0.57                   | 1.26               | 1.26                |
|                          | Indonesia (IDR/USD)   | 12105  | 0.01                   | -1.08                   | 12461              | 13296               |
|                          | Thailand (THB/USD)    | 32.0   | 0.06                   | 0.28                    | 32.32              | 32.79               |
|                          | Malaysia (MYR/USD)    | 3.24   | -0.11                  | -0.94                   | 3.25               | 3.30                |
|                          | Philippines (PHP/USD) | 44.2   | -0.02                  | -0.06                   | 44.09              | 44.02               |

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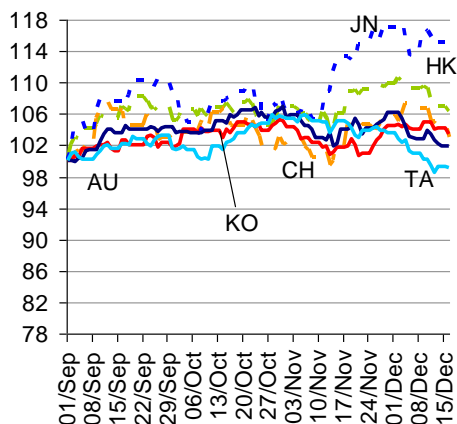
| INTERBANK RATES | INDEX                   | Rate | net change over<br>a day | net change<br>over a week | net change<br>over a month |
|-----------------|-------------------------|------|--------------------------|---------------------------|----------------------------|
|                 | China (SHIBOR/7D)       | 4.35 | 0.06                     | 0.05                      | -0.93                      |
|                 | Hong Kong (HIBOR/1W)    | 0.13 | 0.00                     | 0.01                      | 0.01                       |
|                 | Taiwan (TAIBOR/1W)      | 0.51 | 0.00                     | 0.00                      | 0.00                       |
|                 | Japan (TIBOR/1Y)        | 0.76 | 0.00                     | 0.01                      | 0.01                       |
|                 | Korea (KORIBOR/1M)      | 2.56 | 0.00                     | 0.00                      | 0.00                       |
|                 | India (MIBOR/7D)        | 4.46 | -0.54                    | 0.85                      | -1.04                      |
|                 | Singapore (SIBOR/1W)    | 0.25 | 0.00                     | 0.00                      | 0.00                       |
|                 | Indonesia (JIBOR/1W)    | 6.44 | 0.00                     | -0.02                     | 0.07                       |
|                 | Thailand (BIBOR/1W)     | 2.77 | 0.00                     | 0.00                      | 0.00                       |
|                 | Malaysia (KLIBOR/1W)    | 2.90 | 0.00                     | 0.00                      | 0.00                       |
|                 | Philippines (PHIBOR/1W) | 1.25 | 0.00                     | -0.31                     | 0.31                       |

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# Charts

Chart 1

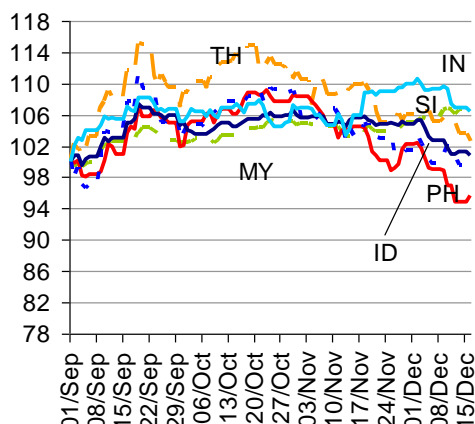
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 2

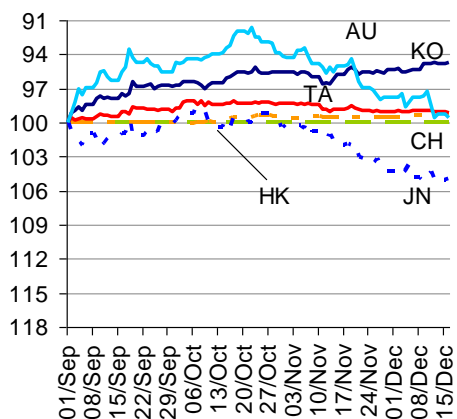
## Stock Markets



Source: BBVA Research and Bloomberg

Chart 3

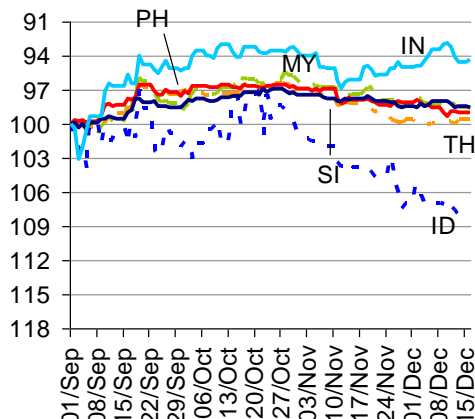
## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

Chart 4

## Foreign Exchange Markets



Source: BBVA Research and Bloomberg

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